



HF 824 – Data Processing Tax Exemption (LSB1207HZ)

Analyst: Shawn Snyder (Phone: 515-281-7799) (shawn.snyder@legis.state.ia.us)

Fiscal Note Version – New

Description

House File 824 provides sales/use and property tax exemptions, and sales tax refunds to eligible data center businesses. Provisions of the Bill include:

- Tier 1 – Requires a capital investment in a data center business of at least \$200.0 million within the State. Provides a sales/use tax exemption from the sale of computers, technology equipment, back-up fuel, and electricity. The Bill also provides a property tax exemption for property utilized by the data center business including computers and other technology equipment.
- Tier 2 – Requires a capital investment in a data center business of at least \$136.0 million (up to \$200.0 million) within the State. Provides that an eligible data center business may file a sales/use tax refund for 50.0% of the State sales/use tax rate of 5.0% from the sales of computers, technology equipment, back-up fuel, and electricity. The data center business will not be eligible for a refund of State sales tax deposited in the Secure and Advanced Vision for Education fund or the Local Option Sales Tax (LOST). Tier 2 data centers would be eligible to receive a sales/use tax refund for up to 7 years.
- Tier 3 – Requires a capital investment in a data center business of at least \$73.0 million (up to \$136.0 million) within the State. Provides that an eligible data center business may file a sales/use tax refund for 50.0% of the State sales/use tax rate of 5.0% from the sales of computers, technology equipment, back-up fuel, and electricity. The data center business will not be eligible for a refund of State sales tax deposited in the Secure and Advanced Vision for Education fund or the Local Option Sales Tax (LOST). Tier 3 data centers would be eligible to receive a sales/use tax refund for up to 10 years.
- Tier 4 – Requires a capital investment in a data center business of at least \$10.0 million for a newly constructed building or \$5.0 million for a rehabilitated building (up to \$75.0 million) within the State. Provides that an eligible data center business may file a sales/use tax refund for 50.0% of the State sales/use tax rate of 5.0% from the sales of computers, technology equipment, back-up fuel, and electricity. The data center business will not be eligible for a refund of State sales tax deposited in the Secure and Advanced Vision for Education fund or the Local Option Sales Tax (LOST). Tier 4 data centers would be eligible to receive a sales/use tax refund for up to 15 years.
- Tier 5 – Requires a capital investment in a data center business of at least \$1.0 million within the State. Provides that an eligible data center business may file a sales/use tax refund for 50.0% of the State sales/use tax rate of 5.0% from the sales back-up fuel and electricity. The eligible data center business will not be eligible for a refund of State sales tax deposited in the Secure and Advanced Vision for Education fund or the Local Option Sales Tax (LOST). Tier 5 data centers would be eligible to receive a sales/use tax refund for up to 5 years.

Background

The Department of Economic Development (DED) has indicated that potentially, there are at least five projects that may be eligible for the tax exemptions provided in House File 824. Of the five projects DED has provided information to LSA, two projects would have capital investment amounts specified in Tier 1, one project would be in Tier 3, and two projects would be classified as Tier 4. The number of projects that would be classified as Tier 5 is currently unknown. Additionally, the DED has indicated that additional projects may be eligible in future years.

The DED has also indicated that the five potential projects are estimated to create 270 jobs with an average annual salary of \$54,400.

Assumptions

The following assumptions were used to estimate the fiscal impact:

- Information provided to the LSA from the DED has identified two Tier 1 projects with investments totaling \$900.0 million, one Tier 3 project with investments totaling \$92.0 million, and two Tier 4 projections totaling \$71.0 million. However, the DED has indicated that the actual number of projects that will invest in Iowa is currently unknown.
- For this estimate, it is assumed that of the capital investment amounts, 8.3% will be invested in land, 25.0% in the building structure, and 66.7% in computers, servers, and other equipment.
- Assumes 60.0% of the construction will occur in the first year of the project development and the remaining 40.0% will occur in year two for all projects.
- Assumes 60.0% of the equipment will be installed during the second year of the project development with additions made yearly at a rate of 11.9% over the next six years when full capacity will be reached.
- Fifty percent of the investment in building and exterior equipment will be from labor and other nontaxable items.
- Section 423.3(47), Code of Iowa, currently exempts computer servers from sales/use tax. This estimate assumes that 90.0% of the servers and technology equipment are currently exempt from the sales/use tax.
- The State sales/use tax rate is 6.0%. Of revenues received from the State sales/use tax, 5/6 is deposited in the General Fund and 1/6 is deposited in the Secure an Advanced Vision for Education (SAVE) Fund. The Statewide effective local option sale tax (LOST) rate is 0.74% and is assumed to remain at that rate in future years.
- For projects in Tiers 2 through 5, eligibility for sales/use tax refunds will expire after the designated period and those funds will remain in the General Fund.
- Converting sales/use tax to fiscal years assumes 48.0% of the tax year impact will be realized in the same fiscal year and 52.0% will be in the following fiscal year.
- For property tax purposes (Tier 1 projects only), the investment in building structures and land will remain subject to property tax. Of the building structures, this assumes that 20.0% represents environmental control equipment that will be made exempt under this proposal. All of the computers, servers, and related equipment that is currently exempt from sales and use tax or made exempt from sales/use tax under this proposal, would be exempt from property tax. Section 427B.17(2), Code of Iowa, currently exempts computers and machinery and equipment from property tax. Any property tax impact would result in year four of the project.
- Local jurisdictions may provide property tax incentives. This estimate does not include any local property tax incentives.
- New property tax exemptions will result in an increase in State aid to school districts where the uniform levy is \$5.40 per \$1,000 of taxable valuation. The FY 2007 Statewide

commercial property tax levy rate was \$37.67 per \$1,000 of taxable valuation and is estimated to increase by 1.8% annually.

- Buildings will be assessed beginning in year two of the project. Taxes payable based on those assessments will begin in year four of the project.
- The estimated total energy usage at full capacity will be 188 megawatts per year. During the first year of operation, the facilities will operate at 60.0% of capacity. Electricity usage is projected to increase at 11.9% per year. At a 6.0% sales tax rate, the estimated amount of sales tax generated from one megawatt is approximately \$32,400.
- The DED estimates that based on the five projects currently identified, wages would be approximately 75.0% higher than the current Iowa median wage. The DED estimates this would generate \$1.13 million in personal income tax and sales tax annually and would be \$500,000 above the amount generated by 270 employees with wages at Iowa's median wage.
- Construction of new buildings and creation of new jobs in the State will create additional economic activity. However, the estimated fiscal impact does not take into account any new economic activity that may result from House File 824.

Fiscal Impact

The estimated number of projects eligible to receive the tax incentives provided in House File 824 and the timeframe for incentive eligibility is currently unknown and thus the fiscal impact is currently unknown. However, the following provides a scenario of the potential of the sales/use tax incentive amounts based on the previously stated assumptions. The amounts can be adjusted linearly based on the level of investment.

A Tier 1 project with an investment of \$200.0 million is estimated to receive a sales/use tax exemption totaling \$480,000 in the first year, \$1.3 million in year two, \$1.5 million in year three, \$1.4 million in year four, and \$1.7 million in year five.

A Tier 2 project with an investment of \$136.0 million is estimated to generate sales/use tax of \$326,000 in year one, \$898,000 in year two, \$1.0 million in year three, \$1.0 million in year four, and \$1.2 million in year five. The project is estimated to receive a sales/use tax refund totaling \$136,000 in year one, \$374,000 in year two, \$431,000 in year three, \$410,000 in year four, and \$485,000 in year five.

A Tier 3 project with an investment of \$75.0 million is estimated to generate sales/use tax of \$180,000 in year one, \$435,000 in year two, \$570,000 in year three, \$543,000 in year four, and \$643,000 in year five. The project is estimated to receive a receive a sales/use tax refund totaling \$75,000 in the first year, \$206,000 in year two, \$238,000 in year three, \$226,000 in year four, and \$267,000 in year five.

A Tier 4 project with an investment of \$10.0 million is estimated to generate sales/use tax of \$24,000 in year one, \$66,000 in year two, \$76,000 in year three, \$72,000 in year four, and \$85,000 in year five. The project is estimated to receive a receive a sales/use tax refund totaling \$10,000 in the first year, \$28,000 in year two, \$32,000 in year three, \$30,000 in year four, and \$36,000 in year five.

A Tier 5 project with an investment of \$1.0 million is estimated to generate sales/use tax totaling less than \$9,000 and receive a sales/use tax refund totaling less than \$4,000 per year for each year eligible.

Sources

Iowa Department of Economic Development
Fiscal Note Analysis for House File 2233 (Web Search Portal Business Tax Exemptions Act)
LSA Calculations

/s/ Holly M. Lyons

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The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the correctional and minority impact statements were prepared pursuant to [Section 2.56, Code of Iowa](#). Data used in developing this fiscal note, including correctional and minority impact information, is available from the Fiscal Services Division of the Legislative Services Agency upon request.
